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Portugal Handbook

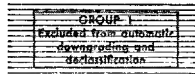
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INTRODUCTION

Although metropolitan Portugal is small in size and population and endowed with few natural resources, its strategic location in the northeastern Atlantic near the Mediterranean and its control of the Azores in the mid-Atlantic have made it an important European country. Its assets are supplemented by the resources and the strategic location of Portugal's African territories. In 1961 native nationalists rebelled, however, and since then Lisbon has devoted much of its economic and military strength to putting down the Africans' drive for independence. The Portuguese have succeeded in reducing the rebellion to manageable proportions, but have been unable to stamp it out completely.

Staunchly pro-Western, Portugal is a charter member of the North Atlantic Treaty Organization, but it is unable to maintain its NATO-committed force because of its military action against the African insurgents. Lisbon argues, however, that it is aiding the alliance by fighting against a "Communist take-over in Africa." In addition to its NATO ties, Lisbon bases its defense policy on the Iberian Pact with Spain and on bilateral arrangements with the United States. Under a 1951 defense agreement renewed periodically, which again comes up for renewal in February 1974, the US retained the right first granted during World War II to use of air and naval facilities in the Azores. Lisbon has continued the defense relationship in spite of Portuguese unhappiness over Washington's refusal to endorse Portuguese African policies and over the arms embargo which restricts US-supplied military equipment to the NATO area, thereby forbidding its use in Portuguese Africa. The Portuguese, however, have dragged their feet on renewing the agreement and required an economic quid pro quo for the 1971 extension of the Azores' agreement.

The authoritarian government of Portugal, which was the outgrowth of a military coup in 1926 against a parliamentary republic, sacrificed personal liberty to preserve order in reaction to the extremely unstable government that preceded it. Repressive political measures and conservative economic policies during the 40-year rule of Prime Minister Salazar, who was replaced in 1968 because of ill-health, brought stability but stifled economic growth. When Dr. Marcello Caetano, a former protege, took over from the stricken Salazar, the new prime minister initially relaxed some of the political and economic restrictions in an effort to overcome the inertia of the Salazar era. But pressures from the ultraright and Caetano's own conservative beliefs, coupled with his unwillingness to permit reforms at the cost of government

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control, have slowed the pace of reform. The cabinet reshuffle in August 1972, which replaced Caetano's two leading technocrats pushing economic reform, appears to be a concession to right-wing critics.

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GEOGRAPHY

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I. GEOGRAPHY

Location

Portugal, the southwesternmost country in Europe, is of strategic importance in the North Atlantic area because of its proximity to the shipping lanes between Europe, Africa, and the Western Hemisphere. Situated in the southwestern part of the Iberian Peninsula on the West European mainland, Portugal is bounded by the Atlantic Ocean on the south and west and by Spain on the north and east. Isolated from Spain by a mountainous and barren interior, Portugal has been traditionally oriented toward the sea. The Portuguese include their Atlantic possessions of the Azores and Madeira Islands as part of the metropole. The Azores are about 840 nautical miles southwest of the Portuguese mainland, and the Madeiras are off the west coast of Africa about 485 nautical miles southwest of Portugal.

Area

Metropolitan Portugal has an area of 36,400 square miles (including 890 square miles in the Azores and 310 square miles in the Madeiras). This is approximately the size of Indiana. The mainland is about 360 miles long from north to south and is approximately 70 to 135 miles wide from east to west. The Azores' nine islands extend over an area of 200 miles north-south and 345 miles east-west. Sao Migueis, the largest island, is about 290 square miles. The Madeira Islands, which extend east-west for about 60 miles and north-south for approximately 50 miles, include the island of Madeira (285 sq. mi.), Porto Santo (17 sq. mi.), and several islets.

Climate

Portugal's climate is generally comparable to that of California inasmuch as both lie in the same latitudes and are on the west coasts of their continents. Porto, on Portugal's northern coast, has about the same winter temperatures as northern coastal California and only slightly less rainfall. In summer, however, Porto is as warm as San Diego, but it has more rainfall. Lisbon in winter is similar to San Francisco; in summer, however, it is somewhat warmer than San Diego. Extreme southern Portugal is in all seasons still warmer and drier. Upland areas near the coast cause surface winds to rise and more rain to fall, and the northern interior mountains receive snow. All interior regions of Portugal are drier than coastal areas, and they have higher seasonal and daily temperature ranges.

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The Azores and Madeira Islands have a maritime climate, characterized by high humidity, moderate to pronounced cloudiness, moderate rainfall heaviest in winter, and mild temperatures throughout the year.

Topography

Portugal is a land of great variety. The most noticeable contrast is between the moist, mountainous and hilly north and the dry, level south. The regions are divided by a central range of mountains, the Serra da Estrela and its associated uplands, which lie diagonally across Portugal from north-east to southwest. These mountains contain the highest peak in Portugal, 6,530 feet. The Tagus, Portugal's largest river, flows along the southeastern edge of this central range and empties into the Atlantic Ocean near Lisbon.

Most of the Azores and Madeira Islands are rugged and mountainous, with precipitous slopes in many places rising abruptly from the water and with deep gorges and valleys. Lakes are common in the high volcanic cones and ridges in the Azores.

Natural resources

Agriculture—Although about half of the land area is arable, much of it is too rugged to have much agricultural potential. Prolonged droughts frequently plague crops and livestock. Despite its diminishing importance in contributing to gross domestic product (GDP), agriculture continues to play a major role in the economy. It occupies nearly a third of the total labor force. The most important crops are cereals, potatoes, olives, tomatoes, and wine grapes. Wine, particularly port and Madeira, and fish and cork products are valuable agricultural exports. Forests, most of which consist of pine, eucalyptus, and oak trees, cover a third of the country. About 30% of the forest land is devoted to cork oak orchards.

Metals and minerals—Portugal has a wide variety of mineral deposits, but few are sufficiently large or rich to be economically significant to the GDP. Portugal, however, is a leading world exporter of tungsten (wolfram) and is a source of iron ore (providing 5% of West Germany's import requirements and a slightly lesser share of those of Belgium and the United Kingdom). Other metal ores mined are gold, silver, tin, uranium, and copper. Salt and construction materials, including marble, are quarried. Mining output is rising, with iron ore expected to become a primary mineral export in 1972. Tin and tungsten production is expanding, and substantial uranium deposits have recently been discovered but remain unexploited.

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Fuels and power—Domestic supplies of fuel wood, coal, and hydroelectric power satisfy less than a fourth of energy requirements. Imports provide the entire supply of crude petroleum, which is the most important primary source of energy, and bituminous coal. Eight coal mines produce roughly half of the coal consumed. Hydroelectric stations provide most of Portugal's growing electric power, which reached a total installed capacity of 2.7 million kilowatts in 1970. Only about 18% comes from thermal sources. Spain shares the output of three stations on the international portion of the Rio Douro. During dry years in Iberia, Portugal secures electric power from France, West Germany, and Switzerland, via its link to the Spanish grid.

Human resources

Metropolitan Portugal (including the Azores and the Madeira Islands) had 8,668,000 inhabitants, according to preliminary returns from the 1970 census. This figure represents only about 2% of the population of Europe (excluding the USSR). Portugal's population density is 238 persons per square mile, compared with the Western European average of 386 persons. The 1970 census disclosed that Portugal had a 2% population decline since 1960, reflecting large-scale emigration, almost half of which was clandestine.

Government restrictions introduced in the 1960s to reduce emigration only increased the number of clandestine departures, so the more onerous restrictions were relaxed. Efforts were made to legalize the status of illegal emigrants in order to encourage their return home. More realistic annual quotas of Portuguese laborers were also established for the major labor importing countries. Until economic conditions improve in Portugal, however, emigration is likely to remain a drain on population.

The Madeiras and the Azores have 6.5% of Portugal's total population, but only 3.4% of the land area. The population density of the islands is 495 persons per square mile. This is an extremely high figure for predominantly rural districts.

The Portuguese people form a relatively homogeneous society. Those who have settled in the country at one time or another during its history have been so thoroughly assimilated that nowhere in the metropole are there ethnological distinctions that diverge markedly from the national norm.

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ECONOMIC
BACKGROUND

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II. ECONOMIC BACKGROUND

Growth trends and income distribution

Despite an average 6% growth of real gross domestic product (GDP) annually between 1955 and 1970, Portugal remains the poorest and least developed country in Western Europe. Economic development has been hampered by a meager natural resource base, an inadequately skilled working force, managerial indifference, and expensive military campaigns in the African provinces.

After nearly two decades in which real growth averaged only 3% annually, measures were adopted in the mid-1950s to spur growth and develop a broader industrial base for the economy. Implementation of an economic development plan in 1953 expanded budget appropriations for investment in infrastructure and provided unprecedented fiscal incentives for private investment. These actions, along with Salazar's decision to allow Portugal to enter the European Free Trade Association (EFTA) in the late 1950s, contributed to the subsequent acceleration of economic growth.

Portugal's evolving economic priorities were reflected in changes in the country's expenditure pattern. Gross investment's share of GDP has increased from 14% in 1955 to around 18% in recent years, largely reflecting the substantial increases in outlays for plant and equipment. The share of private consumption dropped from nearly 80% to a still relatively high 75%. Over the same period, the government's current expenditures increased from about 11% of GDP to 13%, primarily as the result of sharp increases in military spending incurred combating insurrections in Portuguese Africa.

The success of Portugal's drive to industrialize is shown by the growing importance of manufacturing to the economy, increasing its relative contribution to the GDP from 26 to 35 percent between 1955 and 1970. At the same time, as in other developing countries, the share of domestic output originating in agriculture, fishing, and forestry has declined markedly—from 30% to 17%. Nevertheless, nearly one third of the total population still is employed and underemployed in this sector. A large but inefficient service sector has gradually become more responsive to the needs of Portugal's growing industries, more sophisticated consumer tastes, and the dynamic tourist sector. By 1970, services accounted for 27% of domestic output.

Because the population has not grown since 1965—largely as the result of workers finding employment abroad—per capita GDP has increased more

rapidly than total GDP. At slightly more than \$700, however, it remains well below the per capita GDP elsewhere in Western Europe, and leaves the Portuguese consumer well behind his European counterpart. Urban slums, substandard rural housing, and an over-all housing shortage are continuing problems in spite of the government's declared intention of providing adequate housing.

Agriculture and manufacturing

Portuguese agriculture, accounting for about 17% of the country's GDP and employing almost one third of its labor force, remains the most backward and least productive in Western Europe. During the 1960s, growth of output averaged less than 1% annually. Topographical and climatic conditions and poor land utilization account for much of the country's low agricultural productivity. About one half of the land is arable, but even much of this is too rugged and rocky to have much agricultural potential. Moreover, prolonged droughts frequently diminish crops and livestock, and centuries of traditional cultivation and soil erosion have seriously depleted the fertility of the soil. There has not been enough public and private investment to offset some of the natural deficiencies in agricultural resources; indeed, agriculture's total fixed investment increased only from \$47 million in 1963 to \$60 million in 1969 in constant terms.

An archaic system of land ownership further limits agricultural productivity and profitability. Two thirds of the total farm population is concentrated in the north, where holdings often are too small and fragmented to permit either mechanization or efficient use of the farmer's time. The south is characterized by large estates, which—although less than one percent of the number of farm units—cover a third of the country's arable land. Neither the tenant farmers nor the absentee landlords of the estates have had the incentive to preserve or enhance the land's fertility.

The pattern of agricultural production has changed somewhat over the last decade. Wheat and corn still are the major grains, accounting for over two thirds of cereal output, but farmers have shown a growing interest in proven cash crops such as tomatoes. The fastest growing area of agricultural production, however, has been livestock products. Output of Portugal's traditional products, wine and olive oil, has suffered substantial declines.

Manufacturing is characterized by the coexistence of traditional industries such as textiles with newer ones such as petrochemicals and steel. The most dynamic and largest sector of the economy, manufacturing accounts for close to 40% of GDP. Prior to World War II, this sector consisted

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of a few relatively simple processing industries producing canned foods, wines, cork, and cotton textiles. World War II forced Portugal to begin producing some intermediate and capital goods, a development encouraged through protective tariffs. The six-year development plans, begun in 1953, gave impetus to an industrialization process still under way. The government helped expand the basic infrastructure and provided incentives to encourage greater private investment; membership in EFTA in the early 1960s provided a further stimulus. Today, the newer industries outperform many of the traditional ones, and the metal, machinery, and chemical industries rank among the most important branches of manufacturing, along with the traditional textile and food-processing industries.

Tourism

An increasing number of foreign visitors have been attracted to Portugal in recent years. The number of foreign tourists rose from about one half million in 1963 to almost four million in 1971, and tourism has become an important source of income. Foreign exchange received from tourists ranks only behind exports and remittances from Portuguese workers employed abroad among sources of foreign exchange.

The popular tourist areas in Portugal are concentrated along the coastal regions of the south and in the vicinity of Lisbon. The opening of the Salazar Bridge over the Tagus River establishes a direct motor route to the relatively uncommercialized and scenic Setubal Peninsula south of Lisbon. Despite a few notable tourist-oriented projects such as this, however, Portuguese efforts to expand tourist facilities have not proceeded rapidly. But Portugal has now made the development of its potentially rich tourism sector a major part of its third economic plan for 1968-73.

Transportation and telecommunications

Portuguese transportation and telecommunications facilities are, in general, inferior to those of other West European countries. The railroads—the principal means of domestic transportation—suffer from a lack of modern equipment and low personnel efficiency. Highways, which provide complementary feeder service, lack alternate and connecting routes. Inland waterways and coastal shipping are of relatively little importance, and air transport lags well behind surface modes. The merchant fleet is small and carries only about 30% of Portugal's foreign trade. The fleet, however, does provide the vital link between continental Portugal and the Azores, the Madeira Islands, and the overseas provinces.

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Development plans call for improved transportation facilities. Extensive railroad renovation and electrification, and substantial dieselization, are planned. A major highway modernization program also is under way.

Telecommunications facilities are concentrated in the western, coastal region of the country and generally are adequate for government, commercial, and public users. A network of cables, radio relays, multiconductor cables, and open-wire lines provides domestic service. The minister of communications and public works is responsible for most communication functions in continental Portugal, the Azores, and the Madeira Islands. The minister for overseas administers the telecommunications affairs of the overseas provinces. The office of the prime minister controls radio and television broadcast facilities through subordinate agencies, and the ministries permit private firms and other government elements to provide some public and private telecommunications services.

Government economic policy and the financial system

Governmental influence permeates Portugal's economic system despite predominantly private ownership of the means of production and distribution. Partly as a result of deliberate governmental policy and partly as a result of the lack of entrepreneurial initiative, the numerous official commissions that oversee the highly organized corporative structure have gradually assumed regulatory authority over virtually all economic decision-making. The economic power elite, who had formed a long-time coalition of interest groups with the military in support of Salazar, have maintained a close tacit understanding with the government. The leading financiers and industrialists have accepted extensive bureaucratic controls in return for assurances of minimal public ownership and operation of economic enterprises, and certain monopolistic privileges. As a result, only the domestic telephone and telegraph system and certain plants manufacturing military equipment are owned outright by the government. In addition, the government partially owns the hydroelectric power plants, the railroads, the national airline, some petroleum, chemical, and other industrial enterprises.

Through a series of long-term development plans, the government has helped to improve infrastructure and to encourage investment in all major sectors of the economy. Government funds have provided a substantial share of the capital required for the implementation of these plans through direct government participation with private firms in private-sector projects, and through easy-term government loans.

Soon after taking office in September 1968, Prime Minister Caetano made extensive use of fiscal and monetary policies to promote stable economic growth. Expansionary budget policies in 1969 and 1970 were largely responsible for the revival of economic growth during those years. The Caetano government is also looking more to fiscal measures to encourage and abet greater private investment. Although monetary policy is still not as widely used to manage demand as is fiscal policy, the government has intensified its efforts to overcome institutional shortcomings of the money and capital markets. The various six-year development plans have more recently been used to establish ambitious goals for the whole economy and have included appropriate investment programs.

The Portuguese banking sector still is underdeveloped, although bank financing has played an especially important role in business activity. The Ministry of Finance has the responsibility for directing and overseeing bank policies and operations but has delegated most of its authority to the Bank of Portugal, the country's central bank. The bank performs the usual central banking functions, including serving as the sole bank of issue for metropolitan Portugal, the banker for the treasury, and custodian of all gold and foreign exchange reserves for the entire escudo area. It also provides discount and rediscount facilities for Portugal's banking system and, in agreement with the minister of finance, sets liquidity ratios. Because of the high level of liquidity maintained by the banking system, the effectiveness of central bank restraints, even when applied, has been very limited. The banking system comprises 24 commercial banks, three public credit institutions and several public funds, 22 private savings banks, and over 125 credit cooperatives. With the exception of six private banking houses, the commercial banks are joint-stock companies and only four have headquarters outside of Lisbon or Porto. About two thirds of the savings banks have their headquarters located in other cities; most of the credit cooperatives are associated with local agricultural societies and are widely dispersed. Commercial banks form the backbone of the banking system, accounting for almost 80 percent of total deposits and 70 percent of total credit in 1970. Other important financial institutions in the Portuguese system include the National Development Bank and the Portuguese Finance Corporation.

Foreign trade

With more rapid growth, the Portuguese economy has become increasingly dependent on foreign trade. Between 1960 and 1971, total trade more than tripled, rising to \$2,808 million. Imports grew at an average annual rate of 12.8%, reaching \$1,776 million in 1971, while exports grew at 12.1%, reaching \$1,032 million. The trade deficit reached \$744 million in 1971.

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Heavy machinery and transportation equipment to support a rapidly developing industrial sector have been Portugal's largest and fastest growing imports. Petroleum imports also rose rapidly over the same period; other major imports included foodstuffs, beverages, textile yarn, iron and steel, and chemicals. The range of Portugal's exports has broadened considerably over the last decade. Exports of manufactured goods, especially light consumer-oriented products, increased dramatically, although textiles continued as the single most important export item. Machinery and transportation equipment, as well as canned fruits and vegetables, have contributed significantly to export earnings. Traditional exports such as cork, wines, fats and oils, and canned sardines have not increased so rapidly as other newer products.

Lisbon's chief trading partners have been the EFTA and EC countries and the nation's overseas territories, Angola and Mozambique. The EC countries, particularly West Germany, were Portugal's leading suppliers of machinery, transportation equipment, iron and steel, and chemicals. Nevertheless, prior to EFTA's demise, the EC declined in relative importance as substantial trade was diverted to EFTA countries by preferential treatment. The entry of the United Kingdom, one of Portugal's major trading partners, in the EC is likely to be minimally disruptive because of the special treatment the EC accords EFTA members not applying to the Community. Portugal's major import items from Angola and Mozambique are raw cotton and other raw materials, which return to the overseas territories in the form of finished goods.

Balance of payments

Portugal's balance of payments has been in overall surplus since 1965, primarily as a result of a strong invisibles account. Large net receipts from private remittances and foreign tourism have more than offset a chronic and worsening trade deficit. Net private capital inflows also rose substantially throughout most of the 1960s, although they have ebbed somewhat in recent years. Nevertheless, a record balance-of-payments surplus of \$246 million was achieved in 1971 as a result of further increases in tourism and remittances.

Despite an adverse trend in the trade account, the current-account balance improved substantially in the 1960s as a result of considerable inflows of private transfer payments from Portuguese emigrants and of foreign tourist expenditures. Private remittances from the more than two

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million Portuguese laborers who have been attracted by the higher wages and greater opportunities in other countries have become the second largest earner of foreign exchange for Portugal, following merchandise exports.

Much of the increase in private capital inflows during the 1960s represented short-term commercial credit to finance the increase in trade, but a rising share can be attributed to foreign investment. Portugal's favorable investment climate—low wages, membership in a free trade area, a protected domestic market, and stable currency and government—offers considerable incentive to the foreign investor.

The overseas provinces contribute substantial foreign exchange to the escudo area and have helped keep the overall balance-of-payments of the area in surplus since 1962. The surplus on current account of the overseas territories stems primarily from a large surplus on invisibles account with third countries, largely transportation earnings and unspecified invisible earnings from Macao. These invisible surpluses have more than offset the deteriorating trade deficit of the overseas territories with third countries.

Transactions within the escudo area have resulted in a large surplus for Portugal. However, this does not add directly to the Portuguese foreign reserve position, since all commercial dealings between Portugal and the overseas territories are denominated in escudos. International settlements are effected through a payments system, established in 1963, which sets up a monetary fund for the escudo area and provides for monthly balancing of debit and credit positions among the various parts of the area through transfers to or from reserve accounts of the respective territories held at the Bank of Portugal.

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POLITICAL
SITUATION
AND TRENDS

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III. POLITICAL SITUATION AND TRENDS

History

The present authoritarian regime reflects the forms and problems of its various predecessors, which were for the most part controlled by an elitist group of politicians more interested in intriguing to remain in office than in coping with national problems. The devastation of the Peninsular War from 1807 until 1811, when a French invasion caused the royal family to flee to Brazil, left Portugal with lasting serious economic problems. These were compounded by the loss of Brazil in 1822. After the costly civil and dynastic Miguelite War from 1828-34 and various uprisings in the 1840s, a parliamentary system was established in 1852 under the monarchy. However, this form of government was also unable to cope with mounting economic problems. Anticlerical and antimonarchical sentiment grew and in 1910 a long-expected revolution overthrew the monarchy.

The Republic, which was proclaimed in October 1910, faced mounting political and economic problems. Its constitution placed the executive at the mercy of the legislative power. This led to a multiparty system, dominated by rivalries that made it difficult for democratic government to function. Anticlerical measures earned the hostility of the Roman Catholic Church. The government's decision to enter World War I was unpopular among the lower classes, and wartime restrictions brought about a series of strikes and other demonstrations. There were insurrections from both left and right before and after the war. In a military coup in 1926, General Oscar Carmona, after a brief rule by a military junta, took over the presidency. To deal with the chaotic economic situation, which was compounded by the debts incurred during World War I, an obscure economics professor, Dr. Antonio Oliveira Salazar, was appointed finance minister with extraordinary powers over governmental revenue and expenditure. He introduced budgetary stringencies which soon brought fiscal solvency. In 1932, Salazar was appointed prime minister, a post he held until his incapacitation caused his removal in September 1968. Under his direction, a new constitution was drawn up and approved by plebiscite in March 1933. By then, the permanent nature of the regime—now referred to as the New State—and Salazar's position as its effective leader had been recognized. Except for several revolts that were suppressed in the early years of the dictatorship, the regime established under Salazar has not been seriously threatened by political opposition.

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The trauma of government instability and fiscal problems under the parliamentary republic influenced Salazar to install an authoritarian system dominated by the prime minister and to use economic controls to achieve a stable currency with a large accumulation of reserves at the expense of stifling economic growth. The regime's principal problem, however, was the rebellion by native, independence-seeking African nationalist groups which broke out in Portuguese Africa in 1961. To counter the rebellion, Lisbon sent the greater part of its military forces to the African territories and undertook major political, social, and economic reforms designed to improve the lives of the natives and to answer world criticism of Portuguese determination to retain its holdings in Africa.

When Salazar was incapacitated by ill-health in 1968, he was replaced by Marcello Caetano, a former protege. Caetano initially relaxed some authoritarian controls on censorship and on labor organizations and instituted reforms to modernize the economy and improve social welfare and education, all of which had lagged under Salazar. In addition, he pushed through a constitutional reform to grant some autonomy to the overseas provinces in running their internal affairs, but he has been slow to implement the change. When student and labor unrest broke out, the premier clamped down. Opposition from the far right forced him to proclaim as categorically as had Salazar that he had no intention of giving up the African provinces. Caetano's dismissal of his two chief economic reformers in the cabinet reshuffle in August 1972 suggested that his initial efforts to modernize the economy will proceed at a slower pace.

Structure and functioning of the government

The present constitution, approved in a national plebiscite on 19 March 1933, proclaims that Portugal is a unitary republic organized on corporative principles. These involve a hierarchy of social and political associations from the family to occupational corporations. The system is characterized by a strong centralized control of the government by the executive branch. The president (chief of state) is elected for a seven-year term by a government-controlled Electoral College. In theory, the president is the top man because he has the constitutional duty of appointing and dismissing the prime minister (head of government), who presides over an 11-member Council of Ministers (cabinet). In practice, however, power is concentrated in the hands of the prime minister. He selects the members of his cabinet, who are in turn directly responsible to him. Cabinet appointments and dismissals do not require legislative approval.

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The bicameral legislature consists of the National Assembly and the advisory Corporative Chamber. The number of deputies in the National Assembly was raised from 130 to 150 in 1971. They are directly chosen to four-year terms in government-controlled elections in metropolitan and overseas districts. The members of the Corporative Chamber are chosen by the government or by the various economic, administrative, and cultural components of the corporative system. The chamber, with 216 members at present, gives its opinion on form and content of all bills to be presented to the assembly, as well as on many decree laws. The legislature's lack of authority to oust the executive, coupled with the executive's power to issue decree laws and to dissolve the assembly, reduces this body to a secondary status. Although deputies may introduce bills, the assembly's effective legislative function is largely confined to ratification of government bills or decree laws. There is little, if any, chance of the assembly's passing a bill opposed by the government in view of the executive's control over the selection of deputies. Theoretically, the assembly has the right to override an executive veto of any law it has approved, but this has never happened.

The judicial system is independent in principle but tends to be dominated by the executive. The Council of Ministers exercises this domination by controlling the appointment and dismissal of the Supreme Tribunal's president, who in turn controls the appointments to the regular judiciary. Supporters of the regime or those who will not upset the present system are usually chosen for judiciary posts. There are three types of courts: (1) regular or ordinary, with competence in civil and criminal cases; (2) administrative, with jurisdiction in all administrative or fiscal matters involving an agency of the government; and (3) special, such as juvenile, military, and labor courts. In all of these courts, the prosecutors and defense lawyers present their cases to the judge or judges, who hand down a decision. Trial by jury has not been used since World War II. The highest court is the Supreme Tribunal, located in Lisbon. It has only appellate and review jurisdiction and may not pass on the constitutionality of laws.

Although the constitution and legislative statutes grant citizens such guarantees as inviolability of domicile, *habeas corpus*, and freedom from arrest without warrant except in certain specified instances, these guarantees are often deprived of effect by limiting qualifications and exceptions.

Mainland Portugal is divided into 18 administrative districts, each headed by a civil governor. He is appointed by the government to see that its policies are carried out, and is the supreme authority in the district. The governor is assisted by an indirectly elected district council and a district

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board, both of which play purely advisory roles. The Azores and the Madeira Islands—known as the Adjacent Islands—are considered integral parts of metropolitan Portugal. They are divided into four autonomous districts (three in the Azores and one in the Madeiras). Each district has a civil governor and a general board which has administrative and financial responsibilities similar to those of the continental district councils and boards.

The 22 districts of the mainland and the adjacent islands are further divided into 304 townships (*concelhos*) and these are subdivided into 4,022 parishes (*freguesias*). With the exception of Lisbon and Porto, each township is governed by a council and a chamber, both elected indirectly and presided over by a mayor appointed by the minister of interior. Lisbon and Porto have only a municipal chamber to assist the mayor. These two cities are sub-divided into boroughs (*barrios*), each of which includes several parishes.

The parish, the smallest unit in the local government, comes under the direct supervision of the township government or, in the cases of Lisbon and Porto, under the borough administrators. Each parish has a board of three members, elected for four-year terms by heads of families.

Portugal has seven overseas provinces: Angola, Mozambique, Portuguese Guinea, the Cape Verde Islands, and Sao Tome and Principe Islands (offshore from Gabon) in Africa; and Macao and Portuguese Timor in Asia. They are represented in the 150 member National Assembly by 43 deputies, elected by Portuguese citizens in the overseas provinces on the same basis as those elected in mainland Portugal.

Administration of the overseas provinces is highly centralized under the minister for overseas. His direct representative and the highest authority in each of the provinces is a governor-general in Angola, Mozambique, and Portuguese Guinea, and a governor in the other provinces. These officials are appointed for four-year terms by the Council of Ministers on the recommendation of the minister for overseas.

In the July 1971 constitutional revisions, provision was made to grant more autonomy to the overseas provinces for directing their own affairs. Lisbon, however, retained control over international affairs and other matters, such as the naming of provincial governors, national defense, administration and finance, and economic integration. When the constitutional law was implemented by the revised Organic Law for the Overseas Provinces of April 1972, the names and some of the functions of the overseas legislative and administrative bodies were changed, but Lisbon kept

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its veto power. The provinces of Angola and Mozambique were designated states, apparently a mere cosmetic device. The governors-general of Angola and Mozambique were accorded the rank, though not the title, of minister of state with the right to attend cabinet meetings in Lisbon; but they remain subordinate to the Ministry for Overseas.

Political dynamics

Political life in Portugal under Prime Minister Caetano has been only mildly innovative and is still guided by the fundamental authoritarian principles, established during Salazar's rule, which ensure the dominance of the prime minister over all branches of government. Caetano's changes are more a matter of style and flexibility in exercise of power than an alteration in the power structure. Caetano likes to consult the people—both those closest to him and in all parts of the nation—before making his decisions, and he has clearly encouraged more expression of opinion than did Salazar. But he remains convinced that all political activity must be channeled through one officially recognized organization which the executive branch merely consults. The official political organization, however, plays a limited role in determining government policy, and on major issues the government is more influenced by opinions of the military and the financial and business interests whose support is a key factor in the stability of the regime.

A possibly significant new force was introduced into the Portuguese political system in October 1970 when Caetano personally authorized the creation of the Society for the Study of Economic and Social Development (SEDES). Its creation is the result of a search for a vehicle to move the stagnant economy and society into the 20th century. Technocrats who were brought into the government by Caetano felt the need of an organization to promote their ideas of modernization of the economy, and politicians wanted a vehicle which could have legal existence, confront problems, and have contact with the people. Since Caetano also wanted modernization, he agreed to authorize SEDES, which is intended to work as a pressure group within the system. Its activities will undoubtedly give SEDES a political image in spite of the fact that it is specifically denied a "political character" by its statutes.

Political parties

In an effort to give a new image to the official political organization, the old National Union became the National Popular Action (ANP) at the group's fifth national congress in February 1970, and Caetano was acclaimed

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president of the Central Committee. Like its predecessor, the ANP remains an instrument of the government designed to propagate the objectives of the *Estado Novo*, ensure popular electoral support, and maintain in elective offices persons who will actively promote the existing political and social institutions. Entrance requirements are very liberal, and the government has sought with some success to include prominent citizens whose views do not entirely coincide with those of the regime. Despite these newer, relatively liberal, aspects, the ANP's centralized control and internal discipline prevent any member who disagrees with the basic concepts of the administration from exercising any lasting influence within the organization.

The ANP membership is said to be slightly more than one percent of the metropolitan populace. Yet the ANP consistently holds all of the seats in the National Assembly, highlighting the authoritarian nature of the regime.

There are a number of democratically oriented political groups which, though tagged as subversive by a suspicious regime, advocate the use of legal, peaceful means to change the government. Generally known as the traditional opposition, they consist of remnants of the older Republican party, several Socialist groups, and a number of liberal Catholics—by and large composed of intellectuals and professional men. Police harassment has prevented them from achieving any real degree of organization and, together with press censorship and tightly controlled elections, has curtailed their political activity over the years. Their chief tactic has been to address protest petitions to the government. Although these groups are declared illegal, they are in fact openly tolerated for brief periods preceding elections to the National Assembly. However, the Communist Party and other radical groups also declared illegal are not allowed to take any part in national political life.

The Republicans are largely elderly persons whose principal activity is the publication of a newspaper, *The Republic (A Republica)*. In 1963 some Republicans and active Socialists joined forces to form the Social Democratic Action (ADS), which for several years formed the largest element of the non-Communist opposition. Young Socialists who became dissatisfied with ADS' general inactivity broke away in mid-1966 to form the Portuguese Socialist Action (ASP). This group is headed by Mario Soares, an able lawyer who has been in exile in France since 1970. The Socialists have especially provoked the government by calling for peace in the African territories by negotiated political solutions, including the recognition of the principle of self-determination.

The Portuguese Communist Party (PCP), an illegal group under constant police suppression, operates clandestinely at home with most of its

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leadership residing abroad. With only an estimated 2,000 members, it has never become strong enough to be a threat. The pro-Soviet PCP opposes terrorism in favor of joint political action by all "anti-Fascist forces" to oust the regime. It has had limited success in obtaining the cooperation of other political groups.

A number of more liberal Catholic laymen from the ranks of the essentially conservative Catholic Action, a secular organization of the Catholic Church, have publicized their opposition to the regime and their hope for a change in government. This group could serve as the nucleus for a Christian Democratic party at a future date under a more liberal regime.

Some monarchists still exist. Most of them support an organization called the Monarchist Cause (*Causa Monarquica*), which was permitted to function under Salazar and has continued in an even less active role under Caetano. It favors the eventual restoration of the monarchy under the one serious pretender to the throne, Dom Duarte Nuno, Duke of Braganca.

Electoral system

Elections in Portugal are based on two types of representation, one popular and direct, the other corporative and generally indirect. The members of the National Assembly and of the parish boards are chosen by direct, though not universal, suffrage. The elected members of the Corporative Chamber and the municipal chambers are chosen on a corporative or "organic" basis, that is, by and from specific social, economic, administrative, cultural, and religious institutions or activities. The central government maintains absolute control over both procedures; even in elections by direct popular suffrage, it controls the electoral machinery from the time the voter is registered until the final counting of ballots.

A new voting rights law, approved in December 1968, gives women the same voting rights as men. The new law grants the vote to all Portuguese who have reached majority (*emancipados*, i.e., at least 21 years of age or free from parental control), who are able to read and write Portuguese and who are in full possession of their political and civil rights. Illiterates who had previously voted if they paid annual taxes may continue to vote.

The most serious obstacle to free elections is the general prohibition on the formation of political parties. Although campaigning by independents is permitted for a period of approximately 30 days before National Assembly elections, opposition parties as organized entities are not allowed to enter a slate of candidates.

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In the 1969 elections, electoral committees in support of lists of candidates were permitted for the first time. But strict rules limited campaign meetings and publicity. The opposition soon split into separate tickets, a move that killed any small chance it might have had to win a few seats.

Candidates of the National Union—as the government organization was then called—again won all seats in the National Assembly, with the supporters of Prime Minister Caetano winning a majority over far right factions of the regime. In the metropole (which includes adjacent islands), the National Union obtained 87.7% of the total vote of 1.04 million. This total vote was not quite 58% of the 1.8 million registered voters. This was an even lower participation than in 1965, when 73.7% of the registered voters participated. There is evidence that some voting fraud was practiced to ensure the overwhelming vote that government candidates received, although the regime did not need to do so to win.

In local elections there is very little competitive interest, and the government organization ticket is generally unopposed. The three-member parish boards (*juntas de freguesia*) are elected by heads of families, listed in a special electoral register controlled by the government. Parish elections are held every four years, but the schedule is arranged so that local elections do not occur in the same year as National Assembly elections. The last local elections took place in October 1971.

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SUBVERSION

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IV. SUBVERSION

The smooth passage of power from Salazar to Caetano in 1968 reduced the possibility of instability and subversion. Nevertheless, if the new government does not respond to a deepening desire for national modernization, including a marked improvement in living conditions, the public tranquility may well be threatened. Since the liberal and leftist opposition groups will probably remain under tight control for the foreseeable future, the more immediate threat to the regime comes from among its most conservative supporters—the diehard Salazarists who want no policy changes and some high-ranking military officers. Caetano's ability to know when to respond to pressure from this element is valuable to keeping it in line.

Only those political groups that seek change by other than democratic means are of real concern to the government. Among these is the Portuguese Communist Party (PCP), which operates as an underground and exile organization. The party is kept under control by constant police surveillance and frequent arrests of members. While not a threat at present, the PCP has had some success in penetrating non-Communist opposition groups and plays a dominant role in student organizations and in promoting student unrest. Various dissident Communist groups include the pro-Peking Popular Action Front (FAP), which is believed to be moribund as a result of police suppression, and the Patriotic Front of National Liberation (FPLN) with headquarters in Algiers. There are several terrorist groups which since 1970 have resorted to sporadic bombing of military, police, and NATO installations to dramatize opposition to the government. The Armed Revolutionary Action (ARA), which is suspected of links with the PCP, has claimed credit for some of these incidents. Two or three "revolutionary brigades" have sought public credit for other incidents. The brigades appear to be linked to the FPLN but could be a Communist party ploy to divert police attention from the ARA. Although the terrorist groups are more of a nuisance than a threat to the government, they are a cause for concern. The police have made numerous arrests in a continuing effort to stamp them out.

An important factor in the subversive picture is the rise of Portuguese African nationalist organizations based in sympathetic African countries and aimed at forcing Portugal to give up its African provinces. The initial threat posed by these organizations stirred the Portuguese Government to increase greatly its developmental as well as security efforts in the African provinces. As a result the nationalist movements have made little headway in more recent years in stirring up native support. The African nationalists could pose a critical threat to Portugal's hold on the provinces or to the Lisbon regime only if they substantially increased their propaganda efforts and their armed attacks.


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ARMED FORCES

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VI. ARMED FORCES

Defense organization and manpower

The president of the republic is commander in chief of the armed and security forces. Actual control is exercised by the prime minister through the minister of national defense and army, minister of the navy, minister of the interior, minister of finance, and the secretaries of state for army and air. Any prime minister of Portugal is dependent upon the support of the military leaders for his continuance in office, but the prime minister in turn usually appoints his supporters to the key positions. Prime Minister Caetano has raised military pay and increased expenditures for military equipment to win support of the military. He has changed some of his policies in deference to military wishes, but he dismissed a general who publicly criticized his policies.

The president and the prime minister are advised by a Superior Council of National Defense. In wartime, this council would assume the powers and duties of the Council of Ministers in matters relating to the strategic direction of the war and the efficiency of the armed forces and would control priorities. The ministers with a major interest in defense and the chief of the general staff are members of this council. The prime minister also is advised by a Superior Military Council on armed forces training, armament, and allocation of funds for equipment and training, and in time of war on the preparation for and conduct of military operations. Membership includes the minister of national defense and army, who presides in the absence of the prime minister, minister of the navy, the secretaries of state for army and air, the chief of the general staff of the armed forces; the three service chiefs of staff; and an assistant secretary of national defense who acts as non-voting secretary. The General Secretariat of National Defense, which is headed by the chief of the general staff of the armed forces, is the executive body which transmits instructions and directives from the minister of national defense and army to the three services and coordinates matters with the internal security forces.

The armed forces consist of a 180,000-man army (including 48,700 in the metropole and 131,300 overseas, mostly in Africa); an 18,000-man navy (including 3,200 marines, of whom 2,100 are on duty in Africa) with 12 major combatant ships; and a 19,000-man air force (including 3,500 paratroopers, of whom about 2,000 are on duty in Africa) with 714 aircraft, of which 128 are jets. There are three paramilitary organizations—the

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8,000-man National Republican Guard, 5,700-man Fiscal Guard (also known as Customs Guard), and 24,800-man Public Security Police (of whom only 12,500 are in metropolitan Portugal) which have primary responsibility for maintaining internal security. The Portuguese Legion, a paramilitary-type force which claims 60,000 members, assists the security forces by maintaining surveillance over potentially subversive elements.

Military budget

Although rising in absolute terms, Portugal's military appropriations have been declining as a percentage of the central government budget and the gross national product (GNP). This percentage, however, remains the highest in Western Europe. From 1968 to 1970, defense budgets averaged 38.7% of the central government budget and 5.9% of the GNP; during the period 1965-1967, they averaged 43.7% of the central government budget and 7.6% of the GNP. Portuguese military appropriations include funds for the overseas military forces stationed primarily in Angola, Mozambique, and Portuguese Guinea. Since 1968, annual overseas military budgets have been announced at a level equivalent to US\$139,130,000, about 40% of the total defense appropriation.

Logistics

Logistic efforts are concentrated on support of the forces in Africa, primarily the army, which has the predominant role in the counter-insurgency. Logistical funds for the three services are allocated by the minister of national defense and army with the advice of the Third Bureau of the staff of the Secretariat General of National Defense. In addition to providing its own support, the army also performs a number of logistical functions for the other armed forces. It is responsible for making uniforms and for the procurement, storage, movement, and issue of common-use supplies, including subsistence items, medical supplies, small arms and their ammunition, and petroleum, oil, and lubricants (POL). Subsistence and POL supplies are procured and handled by the Military Support Organization, a military production facility that has branches throughout the metropole, Portuguese Africa, and Timor. For the overseas forces, many food items are bought in Western Europe and shipped directly to the overseas provinces, while combat rations and foods such as wine and olive oil are shipped from the metropole. Probably half of the canned food products, milk, and fruits used by the forces in Africa are obtained now from South Africa. Lines of communication have been strengthened in Angola and Mozambique to facilitate supply movements. Storage facilities for all classes of supplies are

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now adequate in the African provinces; most items of equipment are also repaired and overhauled in Africa.

Portugal produces transport vehicles, wheeled armored personnel carriers, small arms, ammunition, aerial bombs, military telecommunications and electronics equipment, and incendiary, smoke, and tear agent munitions; it also produces naval ships as large as modified destroyer escort class. Other military equipment is imported from other NATO countries.

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FOREIGN
RELATIONS

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VII. FOREIGN RELATIONS

The departure of Salazar from the political scene made possible some adjustments in Portuguese foreign policy in response to changing pressures in the outside world. Lisbon's decision to seek closer integration with Europe, followed by its decision to reactivate an earlier application for association with the European Communities, contains the most significant long-term possibilities for change. Caetano has also sought to revitalize Portugal's relations with Spain, certain African states, Brazil, and the United States. Along with these initiatives, the Caetano government has continued to maintain the fundamental objectives of Salazarist foreign policy: the maintenance of Portugal's separate identity on the Iberian Peninsula (i.e., avoidance of absorption by Spain), the defense of the overseas provinces, and the preservation of Portugal's international prestige. Actually, the security of the African provinces has been of overriding importance, requiring at times a de-emphasis on closer relations with the Western alliance and even a change of emphasis on relations with the major members of this alliance. Although recognizing its need to rely on US leadership in Western defense matters and valuing traditional ties with the West, the government has deplored what it considers acquiescence by the US and the United Kingdom in African and Asian nationalist movements.

Portuguese apprehension lest its national sovereignty be compromised has made Lisbon at best a reluctant partner in some of the world and regional bodies it has joined. Lisbon's participation in such organizations as the United Nations and its specialized agencies and NATO has been further affected by the opposition of various member nations to Portugal's policies toward its overseas territories. With the disbanding of the European Free Trade Association, Portugal—along with other EFTA members not joining the European Communities in January 1973—signed a free trade area agreement with the EC in July 1972.

Friendly relations with Spain have been a key element in Portuguese foreign policy under both Salazar and Caetano. The relationship was formalized in the "Iberian Pact," the name applied in 1942 to the 1939 Treaty of Friendship and Nonaggression, which has been renewed every ten years. In May 1970 Caetano made an official visit to Madrid to continue the top-level personal contact that Salazar had established with Franco.

Cordial relations with France are aided by the strong francophile tendencies of educated and influential Portuguese. For the past two centuries, French culture has had a marked influence on Portuguese intellectual

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life and institutions. Under a bilateral agreement signed in 1964, Portugal provided France with a missile-tracking site and related facilities on Flores Island in the Azores. French shipyards and the French aviation industry have sold ships, submarines, and aircraft to Portugal.

For centuries before World War II, the cornerstone of Portuguese foreign policy was the alliance with the United Kingdom, originally concluded in 1386 as protection against the emergent Kingdoms of Castile and Aragon. The treaty has never been repudiated, but the alliance has several times been under severe strain. Among the strains were the British failure to support Portugal during India's take-over of Goa in 1961, the coming to power of the "anti-Salazar" British Labor government in late 1964, and economic sanctions imposed by the United Nations on Rhodesia—enforced in part by British warships patrolling off Beira in the Mozambique Channel. Since the Conservative government in Britain came to power in 1969, London and the Caetano government have sought ways to improve relations. The British have agreed to assist Portugal in improving the terms of the Portuguese agreement with the EC negotiated in 1972.

The special place of Brazil in Portuguese foreign relations is based on bonds of common language and culture between Portugal and its former possession. Lisbon has long sought to build a Luso-Brazilian Community and to improve trade and political and military cooperation for the defense of the South Atlantic. Lisbon also wants Brazil's support in the United Nations. While Brazil has agreed to cultural ties and improved trade, it has not supported Lisbon's African policies or a South Atlantic defense pact. In 1971, an agreement was signed granting equal special rights to the citizens of both countries.

Portugal's relations with African states have been greatly influenced by the rebellion of black nationalists in the Portuguese African provinces. In the case of white-ruled South Africa and Rhodesia, the struggle has brought some cooperation in the intelligence and defense fields and in economic projects among the three countries in spite of cultural and political differences.

Despite Lisbon's policy of recognizing emerging new nations, its relations with the black-ruled states that border its African territories have been complicated by the fact that the majority of these neighbors give material support and refuge to the anti-Portuguese rebels. Without the bases and the access to arms from abroad permitted by the neighboring states, the insurgents could not continue to be a real challenge to the Portuguese.

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Lisbon has sought to reduce such support from these countries through tactics ranging from denying them use of rail facilities in Angola and Mozambique to mounting cross-border attacks on rebel camps outside the territories. Portuguese officials have also supported dissidents from various neighboring African countries for use in paramilitary operations against these countries. The Portuguese have from time to time tried a conciliatory strategy, notably by initiating talks with various black African governments. But the ideological commitment of these states to ending the colonial status of the Portuguese African territories has made it difficult to reach any long-term modus vivendi.

Portugal has no diplomatic relations with any of the Communist countries except Cuba. It does, however, carry on trade with Communist China, the Soviet Union, and all other Communist countries in Eastern Europe except Albania. In the case of China, Portugal has modified its strongly anti-Communist policy and propaganda, largely because its overseas possession—Macao—is a virtual hostage of the Peking government.

In spite of its hostility to Communism and lack of diplomatic relations or official cultural or educational agreements with Communist countries, Lisbon since the late 1960s has permitted private Portuguese entrepreneurs to sponsor performing artists and films from Communist nations. Thus there appears to be a minor trend toward mutually acceptable, commercially based cultural exchanges.

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VIII. US INTERESTS

US interest in Portugal stems largely from the value of the air and naval facilities in the Azores Islands to the US commitment under NATO to protect the southern tier of free European nations. The US presence in the Azores dates from a November 1944 agreement, which was followed by two subsequent agreements modifying and extending US rights to 1951. The use of these bases during any war in which Portugal and the United States are involved within the NATO framework was granted for as long as the NATO treaty is in effect. But peacetime use by the United States, authorized by the 1951 agreement for five years, has been subject to periodic renegotiation. After two extensions, the base rights agreement on peacetime use expired at the end of 1962, after Salazar recessed the renegotiations to show disapproval of US unwillingness to support Portuguese policy toward their overseas provinces. The US was permitted to use the base without cost, however, pending the conclusion of negotiations for base rights extension. Extension until February 1974 was finally agreed upon in December 1971. Although not formally linking it to the extension, the US agreed to provide economic assistance for development programs in metropolitan Portugal. This quid pro quo was \$1 million for educational assistance; the cost-free lease of an oceanographic vessel; \$5 million drawing rights for non-military excess equipment; waiver of the Portuguese annual contribution of \$175,000 to the US Military Assistance Advisory Group for two years; and a PL-480 program for FY 1972 and 1973 of \$15 million per year. Primarily for Portuguese public relations purposes, the agreement included a statement by the Export-Import Bank that the bank would give favorable consideration to Portuguese applications for financing US exports to Portugal.

The United States had 1,589 men stationed at the Azores base as of March 1972. It also contributes about 70 men to the complement of 200 (drawn in almost equal proportions from Britain, Portugal, and the United States) to NATO's Iberian Atlantic Command (IBERLANT), a subordinate NATO headquarters for which Portugal provides facilities near Lisbon. The United States also has access to Portuguese facilities in Angola and Mozambique. Since current US policy forbids US naval vessels from calling at South African ports, the US Navy considers such access, especially in Mozambique, to be essential. The US Air Force and NASA overfly Portuguese Africa in staging air-sea rescue missions or in providing coverage for space missions.

The United States during 1946-62 made available to Portugal some US\$324.5 million in military assistance and around \$152.1 million in

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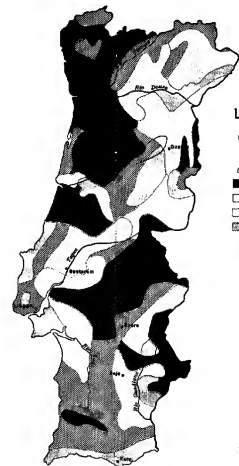
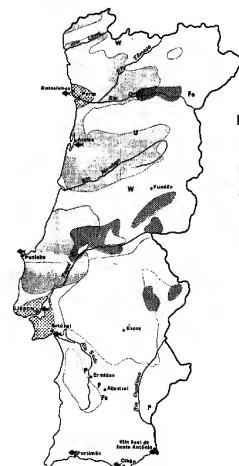
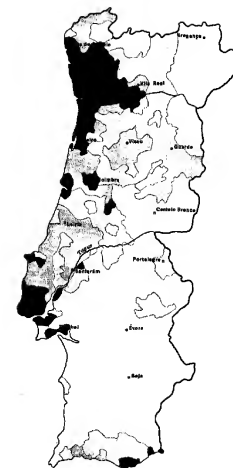
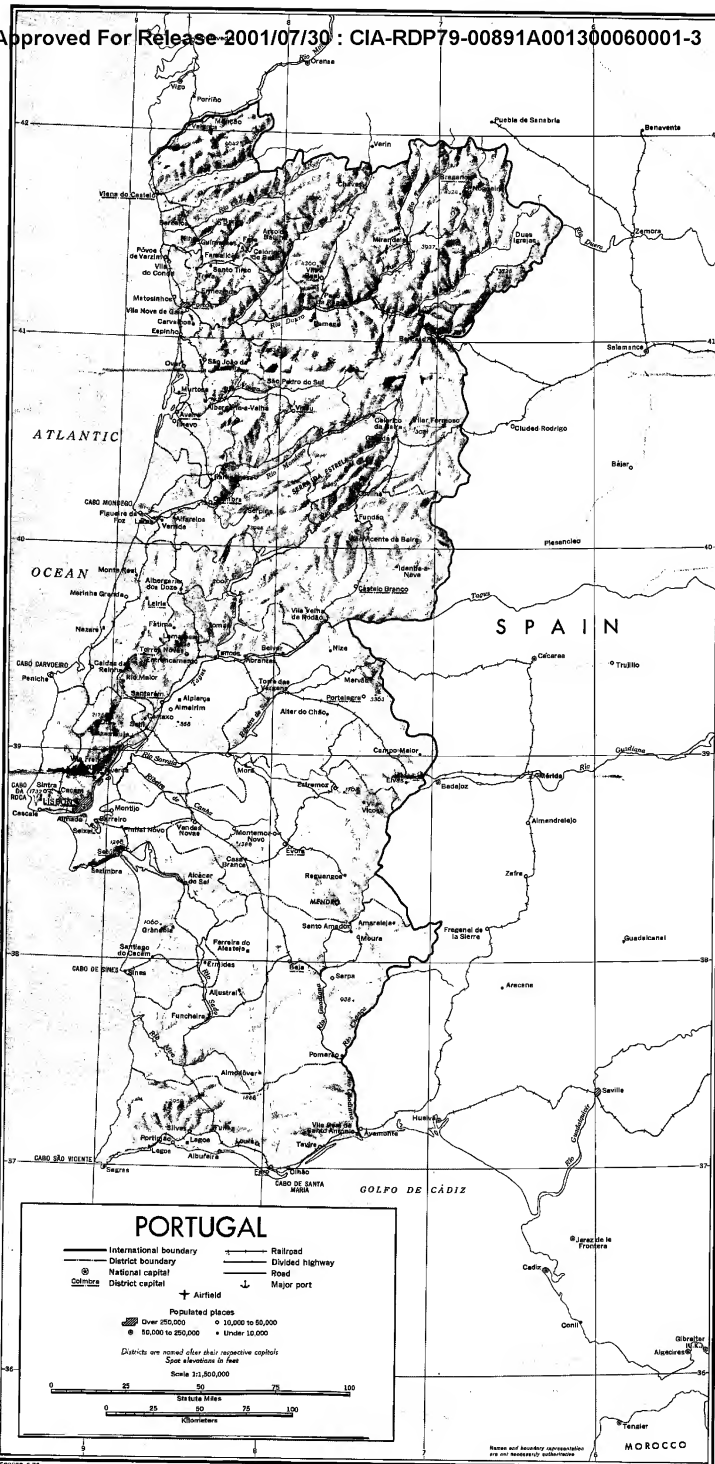
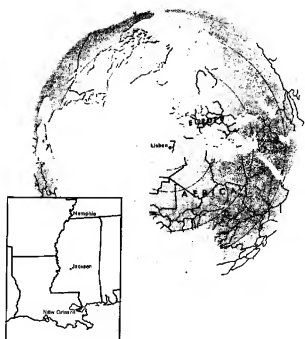
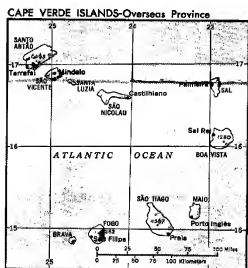
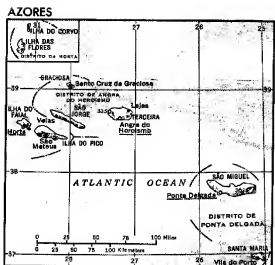
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economic aid. By the late 1960s this assistance was reduced to about \$1 million annually for military aid and economic assistance limited to loans under a PL-480 program. In FY 1970 US aid to Portugal was \$5.6 million, of which \$1.3 million was military aid. Lisbon considered that this assistance was essentially in support of its NATO role and not in payment for the Azores base rights.

Investment and trade

US direct investment in Portugal is modest, with a book value of only some \$119 million at the end of 1970. The Portuguese Government welcomes foreign investment, not only for the new jobs it creates, but also for the technology that generally accompanies such outlays.

The United States accounts for a relatively small share of Portugal's foreign trade. Imports from the United States have remained constant at about seven percent since 1960, while Portuguese exports to the US constitute less than nine percent of the total. Trade consists of relatively small quantities of a wide range of products. The most important imports from the US are machinery and transport equipment. Exports to the US include wine, cork, and textile products.



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